OTATCO INC

Oilfield Technology & Trading Company

1998 Annual Report to Shareholders

OTATCO
Products and Services

OTATCO Production Services and Products (Canada and International)

-Oil and gas well production testing and engineering services

-Artificial lift and optimization testing

-Regulatory compliance services

-Reservoir and productivity analysis and engineering

-Well diagnostic instrument products

-Artificial lift systems and accessories

-Advanced oil and gas well production enhancement technologies

Premier Sea & Land Drilling and Production Services (International)

-Drilling, production and workover equipment sales, rentals and services

-Tubular handling equipment refurbishment, inspection and certification

-Procurement, expediting, trading

ANNUAL REPORT TO SHAREHOLDERS

For the Fiscal Year Ending December 31, 1998

Growth Continues, Company Strives For Efficiency and Profits

Overview

The fiscal year ending December 31, 1998 was one of growth and change for OTATCO.

We expanded our size and market reach dramatically through the acquisition of Premier Sea & Land Pte Ltd. of Singapore and Premier Sea & Land Limited of Hong Kong (the "Premier" companies). This greatly increased revenue and earnings, diversified the company, and provided access to new markets.

Production services enjoyed continued growth in Canada as oil and gas producing company customers responded to low oil prices by drilling less and focusing more on maximizing returns on existing assets. Diversification into gas well products and services and regulatory compliance testing in 1997 proved to be sound investments.

Unfortunately, those same low prices drastically reduced Canadian product sales. However, the revenue and cash flow decline in this area was ultimately more than offset by the strong financial performance of the Premier companies in international markets.

In Canada, OTATCO became more focused on profits from existing products and services and less on technology development. The company now operates only two basic business units: international production services and petroleum product sales through the Premier companies, and domestic production services and petroleum product sales in Canada.

These initiatives have all contributed towards achieving sustained profitability and the opportunity to increase profits in the future. In the past, significant investments in technology, product and market development created extensive losses. With our core products and technologies now past the development stage, OTATCO intends to exploit these unique and proprietary assets to generate earnings for our shareholders.

OTATCO's combination of production products and services and international market exposure will give our company the capability to perform better in 1999 than oilfield services heavily dependent upon exploration and drilling expenditures.

Last Year

- Consolidated revenues reached record levels, almost tripling from $7,227, 245 in 1997 to $20,185,912 in 1998. Profit from operations (before non-recurring charges of $4,811,335) was $1,524,933 or $0.03 per basic share in 1998 compared to a loss of $1,281,631or $0.04 per share the previous year. Including non-recurring charges, OTATCO reported a loss of $0.07 per basic and fully diluted share in 1998.

- EBITDA from operations rose to $2,536,814 or $0.05 per share from negative $165,200 in fiscal 1997.

- OTATCO exited 1998 with a strong balance sheet. Working capital totaled $3,348,407, or $0.07 per common share. OTATCO's long term debt stood at $1,099,456, the majority of which was $941,800 in 11% convertible debentures due April 30, 2000. This equates to an EBITDA to long-term debt ratio of nearly 2.3:1. OTATCO exited fiscal 1998 with no net bank debt.

- Effective January 1, 1998 OTATCO acquired all the issued and outstanding shares of Premier Sea & Land Pte. Ltd. of Singapore and Premier Sea & Land Limited of Hong Kong for a total consideration of $14,291 in cash, 6,000,000 common shares from treasury valued at $900,000, and a percentage of future profits to be paid to the vendors for a period of five years. Mr. Richard Ironside, Managing Director of Premier Singapore, has joined OTATCO. Mr. Ironside's three decades of international oilfield service industry experience is a major asset to our company.

- The Premier acquisitions moved OTATCO into new business areas and new markets. Premier's core businesses are rig equipment sales and rentals, equipment servicing, trading and supplies to customers in Singapore, Indonesia, Malaysia, Thailand, Australia and other countries in Southeast Asia. OTATCO intends to maintain the core businesses and use the marketing channels and infrastructure to expand Canadian products and services into Premier's established international markets.

- Beginning in late 1997, demand for OTATCO's products (oil tools and well diagnostic instruments) significantly declined due to the collapse of world oil prices, including heavy oil where OTATCO supplies completion tools. On a year over year basis, total revenues from tool sales alone declined from $3,176,639 in 1997 to only $838,745 in 1998, a 74% reduction. Stopping the manufacturing process after two years of record sales took longer than desired, resulting in a run-up in inventory levels in early 1998. Gross cashflow from product sales in Canada declined by over $2 million in 1998 creating challenges for management.

- In fiscal 1998 OTATCO took a significant non-recurring charge against earnings of $4,811,335. This was done to reflect the realistic market value of certain assets relative to prevailing market conditions and the Company's decision to curtail future technology research and development. It included the writing down of patents, deferred charges, goodwill, property plant and equipment, inventory, and other related charges.

- In Canada, OTATCO's production services division continued to grow and OTATCO is now the largest supplier of oil and gas well optimization testing and engineering services in this market. OTATCO is the only company capable of providing optimization services on

any type of producing well, and has the greatest array of well testing and analysis equipment available from a single source. Industry response to OTATCO's proprietary gas well optimization services and technologies has been excellent.

- Based upon its technology, experience and Internet support capabilities, OTATCO landed its first major international well optimization contract with Caltex on the island of Sumatra, the largest oil producing operation in Indonesia. Partners in Caltex include Texaco and Chevron. In Sumatra OTATCO provides well optimization and acoustic pressure survey services on more than 1,000 wells per month and performs the engineering in Canada utilizing the capabilities of secure and reliable data transmission over the Internet. In this project OTATCO has proven it has the capability to set up a profitable, growing and autonomous production services operation halfway around the world.

- In October of 1998 Mr. Barry Lee joined OTATCO as Director, Vice-President and Chief Operating Officer. Over the past 27 years Mr. Lee has enjoyed a successful oilfield service career, and brings strong entrepreneurial and operational skills to the company. His experience and management skills will be valuable as OTATCO expands.

This Year

- Counter-cyclical production services. When oil prices started to decline in late 1997, OTATCO enjoyed an immediate upturn in demand for its oil and gas well optimization services. We had record revenues in 1998, and have enjoyed a solid start to 1999. While most service companies are directly dependent on oil and gas company capital expenditures for exploration and the drilling of new wells, OTATCO's production focus and advanced technologies will create continued growth.

- Our first major permanent international services project, Caltex in Sumatra, has significant expansion potential. OTATCO has 17 full-time employees in Duri, an established oilfield service center for this area. More service centers will be opened in this market in the future.

- Multiple market reach. OTATCO now services multiple markets with varying requirements for production products and services. Few of the world's oil and gas producing regions have access to production technologies like those offered by OTATCO, but they all need them.

- A decent balance sheet, positive cash flow and unused credit facilities. In March 1999 OTATCO established new banking credit facilities of up to \$2 million and converted \$1 million of accounts payable to long-term debt. The net impact was to significantly increase working capital and gain access for funds for expansion should the right opportunity arise.

- Costs have been slashed. Because of the downsizing and non-recurring charges, OTATCO can now earn a profit on the same revenues that it

generated in 1998, or less. The first quarter results for fiscal 1999 will reflect the new level of efficiency achieved through 1998's changes.

- Strong management, good marketing, and excellent employees. In 1998 OTATCO was joined by two oil service veterans who have successfully lead their private companies through many years of growth, periodically interrupted by several major downturns. Management is supported by over 60 individuals in three countries with great skills, lots of experience, and a strong work ethic. We all believe in OTATCO and everyone is doing their part to make it work.

Next Year

The fiscal year 1998 was a turnaround year for OTATCO. 1999 is looking better and hopefully 2000 will be better yet. Our company now has the products, services, management and capital for sustained growth.

Many thanks to our employees for their dedication, hard work and commitment in these difficult times for the petroleum industry.

We'd also like to thank retiring Directors Mr. Jim Kalman and Mr. Yook Mah for their efforts serving on OTATCO's Board and helping to build the company.

Thank you for your continued support.

Yours Truly,

David L. Yager
President and CEO

Management's Discussion and Analysis

Overview

Management's discussion and analysis provides further insight to the consolidated financial statements of OTATCO Inc. It should be read in conjunction with the financial statements and the material provided in other sections of this Annual Report.

Demand for the company's products and services is influenced by economic conditions in the petroleum industry. Generally, the petroleum industry is influenced by crude oil and natural gas product prices. Throughout 1998, West Texas Intermediate Oil Prices averaged US$14.41 per barrel - down 30% from the 1997 average of US$20.58, while Alberta Border Natural Gas Prices averaged C$2.10 per mcf in 1998 – a 17% increase from the C$1.80per mcf averaged in 1997 (per Oilweek Pulse).

In 1998 OTATCO significantly expanded its operational base by acquiring Premier Sea & Land Pte Ltd. of Singapore and Premier Sea & Land Limited of Hong Kong (the "Premier" companies). In 1998 the Premier companies contributed $15.5 million toward consolidated revenues.

Revenues

Consolidated revenues were $20.2 million in 1998 compared with $7.2 million in 1997. Product sales revenues from the Premier companies acquired in 1998 accounted for most of the increase. In Canada, product sales declined by $3.5 million, while service revenues increased by $1 million. (The majority of service revenue was generated in the Canadian market.) The decline in Canadian product sales was in response to oil production companies curtailing expenditures because of reduced oil prices throughout the year. The increase in Canadian service revenue reflects the company's efforts to continuously expand its services business.

Margins on Sales and Service Revenue

Management constantly monitors margins on international and domestic sales and services revenues. Reflecting the operating environment noted above, margins on product sales were down in 1998 as compared to the prior year, while margins on service business were up slightly. Overall, total margins in 1998 were 33% compared with 45% realized in 1997.

Selling, Marketing and General and Administrative Costs

During 1998 OTATCO made a concerted effort to reduce overhead costs. Although the 1998 results reflect these benefits, the full impact will not be realized until the 1999 fiscal year and then it will be somewhat offset by the costs to operate the Premier subsidiaries (acquired in 1998). Overall, these costs

increased by 24% to $4.2 million in 1998 from the $3.4 million reported in 1997, but as a percentage of total revenue, they represented 21% in 1998 compared to 47% in 1997.

Operational EBITDA

Being a standard service industry performance indicator, management closely monitors the company's domestic and international Earnings Before Income Taxes, Depreciation and Amortization ("EBITDA"). The addition of the Premier companies (the international business unit) in 1998 significantly improved these results on a consolidated basis, as indicated in note 12 of the consolidated financial statements. Sufficient revenue is required to cover overhead costs and produce positive EBITDA. In 1998 and in 1997 the Canadian business unit was not able to cover its overhead. Cost cutting measures taken in 1998 were meant to significantly improve the operating performance of the Canadian operation, but additional service and sales revenues (as is planned) will be necessary to make the Canadian business unit operate profitably.

Interest Costs

Interest expense for 1998 and for 1997 almost entirely reflect the cost of the 11% Convertible Debenture outstanding.

Income Taxes

The Canadian parent company has accumulated business losses of approximately $3.5 million and in excess of $2 million of capital costs to be depreciated for tax purposes, which are available to shelter future Canadian source income from Canadian taxes. The benefits of these deductions have not been incorporated in the 1998 consolidated financial statements.

The operating results of the Premier Singapore subsidiary are subject to income taxes at approximately 26%. The operating results of the Premier Hong Kong subsidiary are not expected to be subject to income taxes.

The current and deferred taxes reported in 1998 relate exclusively to the Premier Singapore subsidiary.

Depreciation and Amortization

The 1998 charge of $740,659 is 26% lower than the $1,003,964 amount reported in 1997. The reduction in 1998 is due to the decreased balances of capital assets resulting from certain writedowns taken in 1998. (See Non-recurring charges, below.) The 1998 charge includes $358,016 of amortized additional consideration payable to the vendors of the Premier companies. (Refer to note 2 to the consolidated financial statements for full disclosure on accounting for contingent additional consideration payable for the purchase of the Premier companies.) The 1998 charge also includes depreciation of $170,000 related to the Premier companies (acquired in 1998).

Foreign Exchange Gains

Throughout 1998 the values of the US dollar and the Singapore dollar rose relative to the value of the Canadian dollar. Consequently, the translation of the foreign subsidiaries' financial statements resulted in a foreign exchange gain of $138,575.

Non-Recurring Charges

During 1998 OTATCO assessed the carrying values of its assets and determined that, in light of prevailing economic conditions, certain writedowns were necessary. In addition, the company decided to curtail future technology research and development. These costs have been reported as a non-recurring charge in 1998. (Refer to note 9 of the consolidated financial statements for details of the asset balances written down.)

Liquidity and Capital Resources

Funds generated from operations in 1998 were $2,246,661 or $0.05 per share, compared to the deficiency of $277,667 reported in 1997. In 1998 an additional $762,027 (net of issue costs) was raised pursuant to a private placement of treasury common shares.

At December 31, 1998 OTATCO had working capital of $3,348,407 (December 31, 1997 $2,393,126). Included in accounts payable was $1,790,081 (1997 – nil) related to additional purchase consideration payable for the acquisition of the Premier companies. (Refer to note 2 of the consolidated financial statements for further details.) In March 1999, approximately $1,000,000 of that current liability was converted to a secured promissory note due March 31, 2001, paying interest at LIBOR + 3%.

At December 31, 1998 the company had total long-term debt of $1,099,456 (December 31, 1997 $1,201,634). Most of that balance is comprised of the $941,800 Convertible Debenture due April 30, 2000.

Subsequent to 1998, OTATCO secured lines of credit to a maximum of approximately $2 million with its Canadian banker.

Capital expenditures required in 1999 are expected to be funded out of internally generated cash flow.

Risks and Uncertainties

As noted above, demand for the company's products and services is influenced by economic conditions in the petroleum industry and the financial strength of its customers. To a great extent this is influenced by prices for crude oil and natural gas, which can significantly fluctuate.

Competition in the petroleum services industry can sometimes be intense and profit margins can occasionally be significantly reduced to maintain market share.

With foreign subsidiaries operating in Singapore and Hong Kong (the Premier companies), OTATCO is subject to foreign exchange risks associated with fluctuations in the Singapore dollar and the US dollar. There are also political risks of operating in those countries. However, management does not believe these risks to be significant.

OTATCO and its customers operate with diligence and due care and within legislation governing environmental and safety matters. However, accidents can occur and the company could be challenged in the courts. Currently, the company is involved in lawsuits involving various amounts which are being vigorously defended. The results of these actions are not determinable and

are not expected to have any material impact on the financial position of the company.

Management monitors all areas of risk to ensure that its exposure falls within acceptable parameters. OTATCO carries insurance to protect the company in the unlikely event of destruction or loss to its assets. Public liability insurance is also maintained at prudent levels.

Year 2000 Compliance

Throughout 1998 and 1999 OTATCO has worked with its systems consultants and engineers to evaluate and test Year 2000 compliance for its computer systems and equipment. Management has also made inquiries of its customers and suppliers about their ability of handle the millennium changeover. Based on this work done, management does not anticipate any significant problem with the change of date to the year 2000.

CONSOLIDATED FINANCIAL STATEMENTS

OTATCO INC.

December 31, 1998 and 1997

ERNST & YOUNG

AUDITORS' REPORT

To the Shareholders of
OTATCO Inc.

We have audited the consolidated balance sheet of **OTATCO Inc.** as at December 31, 1998 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements for the preceding year were audited by other auditors who expressed an opinion without reservation on these statements in their report dated January 30, 1998.

Ernst & Young LLP

Calgary, Canada
April 14, 1999

Chartered Accountants

OTATCO Inc.

CONSOLIDATED BALANCE SHEETS

As at December 31

	1998 $	1997 $
ASSETS		
Current		
Cash and short term investments	**1,752,589**	405,232
Accounts receivable	**3,759,036**	1,623,567
Inventory	**1,031,925**	1,495,733
Prepaid expenses	**239,727**	116,628
	6,783,277	3,641,160
Capital		
Property, plant and equipment *[note 3]*	**1,489,361**	1,652,662
Patents, technology and goodwill *[note 4]*	**1,505,781**	2,608,269
	2,995,142	4,260,931
Deferred charges *[note 5]*	**—**	1,197,165
	9,778,419	9,099,256
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**3,122,339**	1,094,802
Income taxes payable	**312,531**	—
Current maturities of long-term debt	**—**	153,232
	3,434,870	1,248,034
Deferred taxes	**9,880**	—
Long-term debt *[note 6]*	**1,099,456**	1,201,634
	4,544,206	2,449,668
Commitments and Contingencies [note 11]		
Shareholders' equity		
Share capital *[note 7]*	**12,224,408**	10,353,381
Deficit	**(6,990,195)**	(3,703,793)
	5,234,213	6,649,588
	9,778,419	9,099,256

See accompanying notes

On behalf of the Board:

Director Director

OTATCO Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31

	1998 $	1997 $
Revenues		
Sales	**16,311,032**	4,938,567
Services	**3,874,880**	2,288,678
	20,185,912	7,227,245
Cost of sales	**(10,859,278)**	(2,371,559)
Cost of services	**(2,581,629)**	(1,624,715)
	(13,440,907)	(3,996,274)
Gross profit	**6,745,005**	3,230,971
Selling and marketing expenses	**(680,884)**	(1,017,374)
General and administrative expenses	**(3,527,307)**	(2,378,797)
Earnings (loss) before the undernoted	**2,536,814**	(165,200)
Interest expense	**(106,618)**	(112,467)
Provision for current income taxes *[note 8]*	**(303,179)**	—
Depreciation and amortization	**(740,659)**	(1,003,964)
Foreign exchange gains	**138,575**	—
Earnings (loss) before the following	**1,524,933**	(1,281,631)
Non-recurring charges *[note 9]*	**(4,811,335)**	—
Loss for the year	**(3,286,402)**	(1,281,631)
Deficit, beginning of year	**(3,703,793)**	(2,422,162)
Deficit, end of year	**(6,990,195)**	(3,703,793)

See accompanying notes

OTATCO Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	1998 $	1997 $
OPERATING ACTIVITIES		
Loss for the year	**(3,286,402)**	(1,281,631)
Items not affecting cash:		
Depreciation and amortization	**740,659**	1,003,964
Non-recurring charges *[note 9]*	**4,811,335**	—
Gain on sale of property, plant and equipment	**(18,931)**	—
	2,246,661	(277,667)
Net change in non-cash working capital	**100,315**	(758,275)
	2,346,976	(1,035,942)
INVESTING ACTIVITIES		
Net assets acquired in business acquisition, net of cash	**(256,736)**	(631,780)
Additions to property, plant and equipment	**(592,923)**	(504,244)
Proceeds on disposal of property, plant and equipment	**104,874**	—
Additions to deferred charges	—	(735,204)
Additions to patents, technology and goodwill	**(1,870,451)**	(50,000)
	(2,615,236)	(1,921,228)
FINANCING ACTIVITIES		
Issue of share capital *[note 7]*	**1,871,027**	818,292
Repayment of long-term debt	**(255,410)**	(265,370)
Collection of loans receivable	—	110,000
Additions to long-term debt	—	255,410
Writedown of share purchase loans	—	77,675
	1,615,617	996,007
Increase (decrease) in cash and short-term investments during the year	**1,347,357**	(1,961,163)
Cash and short-term investments, beginning of year	**405,232**	2,366,395
Cash and short-term investments, end of year	**1,752,589**	405,232

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

1. ACCOUNTING PRINCIPLES

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect the policies set out below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Premier Sea & Land Pte. Ltd. and Premier Sea and Land Limited.

Inventory

Inventory consisting of tool components, parts and finished goods is carried at the lower of cost and market. Market is defined as net realizable value for finished goods and work-in-progress and as a replacement cost for raw materials.

Foreign exchange translation

Monetary amounts denominated in a foreign currency are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary amounts denominated in a foreign currency are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the period. Exchange gains and losses resulting from the translation of foreign currency amounts are reflected in operations.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and amortization. Depreciation and amortization is calculated at rates which amortize the cost over the useful life of each asset as follows:

Molds	Straight-line	10%
Field and shop equipment	Declining balance	20%
Office furniture and equipment	Declining balance	20%
Computers and software	Declining balance	30%
Vehicles	Declining balance	30%
Service meters	Declining balance	20%
Leasehold improvements	Straight-line	5 years

Patents, technology costs and goodwill

Purchased patents, technology costs and goodwill are carried at their original cost less accumulated amortization, which is calculated on a straight-line basis over periods of 5 to 10 years to amortize the cost over the asset's estimated useful life. The carrying value of purchased patents, technologies and goodwill is periodically reviewed by the Company and impairments are recognized against earnings when it is determined that the expected future cash flow to be derived from the related business or product is less than its carrying value.

Deferred Income Taxes

The Company follows the deferral method of tax allocation method of accounting for income taxes, whereby deferred taxes are provided for to the extent that current income taxes have been reduced by claiming amounts in excess of expenses recorded in the financial statements.

Financial instruments

The financial instruments recognized in the balance sheet consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt. The value of the equity element of the convertible debentures included in long-term debt at the time of issue was not material. The fair value of the non-interest bearing note is not practically determinable. For the remainder of these financial instruments, the fair value approximates their carrying value.

Measurement uncertainty

The amounts recorded for depreciation of property, plant and equipment and for amortization of patents, technology and goodwill are based on estimates. By their nature, these estimates and those related to future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

2. BUSINESS ACQUISITIONS

Effective January 1, 1998, the Company acquired 100 percent ownership of two corporations operating in the international oil service industry, Premier Sea & Land Pte. Ltd. and Premier Sea and Land Limited.

These transactions have been accounted for using the purchase method whereby assets acquired and liabilities assumed are recorded at fair values. The investees operating results have been included in the consolidated financial statements from the effective date of purchase. The fair values of the net assets acquired are as follows:

	1998 $
Assets acquired:	
Current assets, including cash of $657,555	**2,859,897**
Property, plant and equipment	**196,778**
	3,056,675
Liabilities assumed:	
Current liabilities	**2,132,504**
Deferred taxes	**9,880**
Fair value of net assets acquired	**914,291**
Consideration:	
Cash	**14,291**
Common shares	**900,000**
	914,291

Additional purchase consideration is payable to the vendors over five years if the investee companies are profitable. Specifically, the Company is required to pay as additional purchase consideration the following percentages of future subsidiary profits to a maximum of $15,000,000:

1998	60%
1999	55%
2000	50%
2001	45%
2002	40%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional purchase consideration is accounted for as goodwill, and is amortized over a five year period.

At December 31, 1998, the additional purchase consideration payable of $1,790,081 respecting profits earned by the investee Companies in 1998 was included in accounts payable and accrued liabilities. On March 31, 1999 the Company executed a promissory note to convert $1 million of this current liability to term debt due on March 31, 2001. The promissory note is secured by a floating charge on all assets of the Company, ranking subordinate to the redeemable convertible debenture and the banking credit facilities. Interest, floating at LIBOR plus 3% is payable monthly.

On June 6, 1997, the Company acquired all of the issued and outstanding shares of Copeco Production Services Inc. for a purchase price of $229,100 payable in $40,000 cash and 315,168 common shares of the Company.

On July 15, 1997, the Company acquired certain well failure management software from Glenn Prather & Co., a Texas partnership, for a purchase price of US $292,715 payable in US $65,000 cash, a note payable of US $177,715 and 137,410 common shares of the Company.

These transactions have been accounted for using the purchase method whereby assets acquired and liabilities assumed are recorded at fair values. The fair value of the net assets acquired are as follows:

			1997
	Copeco $	Glen Prather & Co. $	Total $
Assets acquired			
Current assets	113,676	—	113,676
Property, plant and equipment	59,828	402,680	462,508
Patents and technology	—	—	—
Goodwill	166,564	—	166,564
	340,068	402,680	742,748
Liabilities assumed			
Current liabilities	110,968	—	110,968
Fair value of net assets acquired	229,100	402,680	631,780
Consideration			
Cash	40,000	89,440	129,440
Notes payable	—	244,535	244,535
Common shares	189,100	68,705	257,805
	229,100	402,680	631,780

Effective January 1, 1998 Copeco Production Services Inc. was amalgamated with the Company.

3. PROPERTY, PLANT AND EQUIPMENT

	1998		
	Cost $	Accumulated Depreciation $	Net Book Value $
Field and shop equipment	1,098,246	348,834	749,412
Office furniture and equipment	194,757	95,731	99,026
Computers and software	570,076	301,690	268,386
Vehicles	46,323	13,802	32,521
Service meters	477,701	137,685	340,016
Leasehold improvements	117,362	117,362	—
	2,504,465	1,015,104	1,489,361

	1997		
	Cost $	Accumulated Depreciation $	Net Book Value $
Molds	75,000	18,750	56,250
Field and shop equipment	515,968	107,686	408,282
Office furniture and equipment	119,690	38,193	81,497
Computers and software	929,850	242,046	687,804
Vehicles	3,090	104	2,986
Service meters	420,684	69,774	350,910
Leasehold improvements	70,429	5,496	64,933
	2,134,711	482,049	1,652,662

The depreciation and amortization charge for the year ended December 31, 1998 was $375,990 (1997 - $262,061).

4. PATENTS, TECHNOLOGY AND GOODWILL

	1998		
	Cost $	Accumulated Amortization $	Net Book Value $
Patents and technology	**586,369**	**512,653**	**73,716**
Goodwill	**1,790,081**	**358,016**	**1,432,065**
	2,376,450	**870,669**	**1,505,781**

	1997		
	Cost $	Accumulated Amortization $	Net Book Value $
Patents and technology	2,612,546	1,122,292	1,490,254
Goodwill	1,487,083	369,068	1,118,015
	4,099,629	1,491,360	2,608,269

The amortization charge for the year ended December 31, 1998 was $364,669 (1997 - $335,014). During 1998, the Company recognized a write down of $1,490,255 in respect of patents and technology and a writedown of $1,118,015 in respect of goodwill (see note 9).

5. DEFERRED CHARGES

	1998 $	**1997** $
Deferred product development costs, net of amortization of $nil (1997 - $448,862)	—	1,188,469
Deferred financing costs, net of amortization of $nil (1997 - $69,944)	—	8,696
	—	1,197,165

During 1998, all deferred product development and financing costs were written off (see note 9). In 1997, $735,204 of development costs were deferred; amortization was $322,556. Amortization of deferred financing costs for the year ended December 31, 1997 was $26,208.

6. LONG-TERM DEBT

	1998 $	1997 $
Redeemable, convertible debentures - bearing interest at 11% per annum payable semi-annually, maturing April 30, 2000; convertible at $0.40 per common share; collateralized by a charge over all of the assets of the Company, subordinated to any bank indebtedness.	**941,800**	941,800
Unsecured, non-interest bearing notes payable - to be repaid at 5% to 7.5% of gross revenue from the sales of certain products in the period ending September 28, 2000. Any amount remaining unpaid at September 28, 2000 will be forgiven.	**157,656**	157,656
Promissory note - repaid in 1998.	**—**	215,410
Shareholder loan - repaid in 1998 with $5,000 and by the issuance of 291,667 treasury common shares.	**—**	40,000
	1,099,456	1,354,866
Less: current maturities	**—**	(153,232)
	1,099,456	1,201,634

Minimum aggregate principal repayments during the years ended December 31, 1999 - $nil; December 31, 2000 - $941,800.

At December 31, 1998, the Company had a line of credit facility to a maximum of $400,000, of which no amount was outstanding. The line of credit was collateralized by a general assignment of book debts and general security agreement over other property.

On March 30, 1999 the Company entered into two new revolving credit facilities with Hongkong Bank of Canada to a maximum of approximately $2,000,000. One provides a line of credit for Canadian operations of up to $600,000 collateralized by cash term deposits. The other line provides a revolving credit facility for Premier Sea and Land Pte. Ltd. and Premier Sea & Land Limited of up to US$1 million secured by an agreement between the Company and Export Development Corporation (EDC). EDC is in turn secured by a general assignment of certain accounts receivable from the Company.

7. SHARE CAPITAL

Authorized

The Company has authorized share capital consisting of an unlimited number of common shares and an unlimited number of preferred shares which are issuable in series.

Issued - Common Shares

	Shares	Amount $
Balance as at December 31, 1996	33,930,934	9,455,409
Issued for cash pursuant to private placements	1,250,000	502,679
Issued on exercise of options	445,500	115,525
Issued on exercise of warrants	27,106	13,282
Issued on conversion of debentures	135,000	54,000
Issued to acquire assets	619,245	357,805
Shares held for cancellation	196,079	—
Issued to settle obligation	150,000	90,000
Share purchase loans receivable	—	(233,025)
Share issue costs	—	(2,294)
Balance as at December 31, 1997	**36,753,864**	**10,353,381**
Issued on business acquisition *[note 2]*	**6,000,000**	**900,000**
Issued for cash pursuant to a private placement, net of issue costs of $42,252	**6,702,316**	**762,027**
Issued to repay shareholder loan *[note 6]*	**291,667**	**35,000**
Issued for services and technology *(a)*	**1,168,833**	**174,000**
Shares cancelled	**(196,079)**	**—**
Balance as of December 31, 1998	**50,720,601**	**12,224,408**

(a) Includes 300,000 shares held in escrow pending a patent approval.

(b) At December 31, 1998 there were 2,866,667 (1997 - 3,056,667) outstanding options to purchase common shares issued to directors, officers and employees at prices ranging from $0.10 to $0.40 expiring between 1999 and 2003.

8. INCOME TAXES

Current and deferred income taxes relate exclusively to Premier Sea & Land Pte. Ltd. operations. The Company has incurred losses for income tax purposes of approximately $3,500,000 from its Canadian operations and has a tax basis in its assets in excess of the accounting carrying values. This tax benefit has not been recognized in the financial statements.

9. NON-RECURRING CHARGES

During 1998, the Company assessed the carrying value of patents, deferred charges, goodwill, property, plant and equipment, and inventory in light of prevailing economic and market conditions. It was determined that a non-recurring charge be taken to write down the value of its assets as follows:

	1998 $
Writedowns of patents	1,490,255
Deferred charges	1,197,165
Goodwill	1,118,015
Property, plant and equipment	491,069
Inventory	429,352
Other charges	85,479
	4,811,335

10. LOSS PER SHARE

The loss per share has been calculated using 46,453,703 (1997 - 35,406,498) shares, being the weighted average number of shares outstanding during the year.

	1998 $	**1997** $
Basic and fully diluted loss per share	**(0.07)**	(0.04)

11. COMMITMENTS AND CONTINGENCIES

(a) Under the terms of operating leases for premises and equipment, the Company is committed to make the following minimum lease payments over the next five years:

	$
1999	619,493
2000	342,923
2001	191,035
2002	47,693
2003	2,331

(b) The Company is the defendant in lawsuits involving various amounts which the Company is vigorously defending. The results of these actions are not determinable and are not expected to have any material effect on the financial position of the Company.

(c) The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at December 31, 1998, the Company has commenced the identification of computer systems that will require modification or replacement. An assessment of the readiness of third parties such as customers, suppliers and others is ongoing. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

12. SEGMENTED INFORMATION

The Company's operations encompass two geographic segments: Canada and International:

	1998 $	1997 $
Revenue		
Canada	**4,658,678**	7,227,245
International	**15,527,234**	—
	20,185,912	7,227,245
Earnings before interest, tax, depreciation, amortization and other		
Canada	**(1,155,585)**	(165,200)
International	**3,692,399**	—
	2,536,814	(165,200)
Identifiable assets		
Canada	**4,629,260**	9,099,256
International	**5,149,159**	—
	9,778,419	9,099,256
Capital expenditures and goodwill		
Canada	**2,021,884**	1,289,448
International	**441,490**	—
	2,463,374	1,289,448
Depreciation and amortization		
Canada	**614,917**	1,003,964
International	**125,742**	—
	740,659	1,003,964

OTATCO INC.

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Calgary, Alberta

Barry J. Lee
High River, Alberta

Richard Ironside
Singapore

Keith Krausert
Calgary, Alberta

Brock Gibson
Calgary, Alberta

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Yook Mah
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BANKERS
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LEGAL COUNSEL
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